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## Treasurer: State budget not a 'red' or 'blue' issue

3-1-2009 - State Treasurer Dean Martin — the state's banker — talked with the Star's editorial board late last month. Here are excerpts about Arizona's budget from the conversation.

STAR: Tell us what you'd like us to know.

MARTIN: Well, of course the income tax refund issue, that's probably the biggest thing that's going on.

We have no issues with refunds. California and Kansas were both having problems because they had not passed a budget fix. There's never going to be a situation where we couldn't cover refund checks

STAR: What are your views on the state budget deficit?

MARTIN: The problem with the budget really has to go back to the last two budgets. Look at the 2006 and 2007 budgets: Basically, you had spending go up as if you had no recession with revenue going down as if you had a recession.

That's why you've got such a wide gap. It's not just the economy, it's not just the spending. It's both.

Now, was that just Janet's (former Gov. Janet Napolitano) fault? Well, no. You had a legislature that passed that budget too. There's plenty of blame to go around, this was not a Republican or Democrat thing.

STAR: What about the stimulus money. Is it in our bank?

MARTIN: No, it's not. It's still sitting in (Washington) D.C. And it will be for some time.

The stimulus package will solve about a third of our problem. We have the worst budget deficit in the nation. Even though California's messed up politically, percentage-wise, we have the worst budget in the nation. I believe California and New York are number two and number three.

If you want to solve this budget problem, quickly, fairly and equitably, you basically have to develop a sustainable budget. If you had stopped at the '07 budget when we were warning that we had a shortfall, we could have gotten through this entire recession without any cuts — no growth, but no cuts either.

My recommendation to the Legislature and the governor is go back to the '06 budget.

You're not eliminating the programs, you're just saying "look, we don't have the money to pay right now. They will come back as soon as the money gets here."

That way you're not cutting programs, you're just delaying the growth.

STAR: So has anyone listened to your idea?

MARTIN: They all listen. What I found interesting is when they first did the options, the Senate went back to '05 levels basically, and the house went back to '07 levels. But they didn't do it the way I was saying. I was saying don't eliminate funding things.

Likewise I've always said don't do sweeps. (A fund sweep is when the Legislature moves monies in special accounts into the general fund.)

If you need the money from those other accounts, borrow it. Put an I.O.U. in there. Say look, we're in trouble, we need the cash, we will pay you back with interest.

Because by sweeping the money and never paying it back, you basically incentivized bad behavior in that agency. Agencies that spend all the cash whether they need to or not, don't get hit. Those that saved and acted responsibly lose their money.

STAR: The Legislature only needs to think in two-year increments.

MARTIN: Even then it's really only one year. Anybody in the private sector would never run this way. It's partly because the state runs on cash accounting. That sounds arbitrary, but cash accounting allows you to do a lot of really interesting tricks. Basically, it allows you to ignore liabilities. So as long as you don't have to pay for it this year, it doesn't show up on your books.

STAR: So would you like the state to change its accounting system?

MARTIN: With some sort of an accrual system you would have to show your true operating liabilities.

STAR: Is that a possibility?

MARTIN: You're never going to get it passed by the Legislature. We've tried before. Nobody wants to tie their hands like that.

What you really need, in my opinion — and I'm a conservative but I'm a long-term conservative and I break with some of my conservative colleagues on this one— is a rainy day fund. It is exactly the right tool.

What do personal financial planners tell you? Have three to six months in reserve for emergencies.

When you're dealing with a recession, generally that's when your needs for government go up. More people are on unemployment. More people go on food stamps. Kids drop out of private school and go to public school because they can't afford the tuition anymore.

So generally your expenses actually go up. So what I propose is you should have multiple rainy day funds. That way, it's not a target. If you had a \$4 billion rainy day fund, that's going to be a target for everybody's special projects.

STAR: Is there any chance that any of the stimulus money will be turned away?

MARTIN: No, not in Arizona. We can't afford — I don't think so.

STAR: Some of the states are doing creative things with taxes. What do you think about some of those solutions?

MARTIN: There are just two things in our economy: There's labor and there's things. We tax both in Arizona. The income tax taxes your labor, the sales tax taxes things.

There's always this argument there's a loophole in your tax code because we don't tax services. Well, we do tax services. We tax the labor that's associated with that through the income tax. If you put a sales tax on it, you're actually double taxing if you put a sales tax on top of the labor tax. Picking winners and losers is a very dangerous road to go down.

Information from: The Arizona Daily Star, <http://www.azstarnet.com>